

Another rock solid quarter

During Q3, the US central bank started lowering the interest rate for the first time since 2008. At that time, it was due to the financial crisis and unemployment. Today the story is different as the stock market is robust, the GDP growth trend is one of the longest in history and unemployment is at its lowest level in 50 years. This is positive for real estate companies which have performed well despite the interest hike cycle preceding the latest interest rate cut in the US.

We saw continued strong momentum for real estate in Q3, which performed in line with broader equities in USD. In September, a number of persistent trends reversed. Real rates backed up and stocks factor-rotated away from growth towards value. In real estate, this led to retail names that have been long out-of-favour coming in as some of the best performers. Blackstone announced the launch of the largest ever global real estate fund, with USD 20.5bn in capital commitments, reflecting the continued supportive backdrop for real estate. SKAGEN m2 had a solid quarter in both absolute and relative terms.

The last day of the quarter was also the day that the fund changed its benchmark to better reflect the growing REIT markets globally. The fund will thus be able to invest more broadly in terms of both real estate segments and geography, which is positive in terms of diversification and new opportunities.



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Portfolio activity

The fund was rather active at the end of the quarter: we sold out of both Hong Kong listed names Soho China and China Vanke and bought into two new US names, namely Colony Capital and Vici Properties. Colony Capital is transitioning from being a diversified real estate operator to focusing on digital real estate and infrastructure, well aligned with SKAGEN m2's thematic investing. The company took a significant step at the end of the quarter by selling their logistic assets to Blackstone for USD 5.9bn. Vici Properties is an experiential real estate trust owning assets within the entertainment and hospitality industry in the US. We do not feel that the growth pipeline of the company is reflected in the share price. The fund also entered into its first position in UK in a very long time. After exiting Swedish rental operator Hembla, we bought into Grainger, a market leader in rental apartments in UK. The company has a strong position in the unconsolidated private rental sector with a clear strategy and pipeline. They recently entered into an exclusive collaboration with Transport of London that will enable Grainger to build apartments in central parts of London.

Top contributors and detractors

Vonovia's acquisition of Blackstone's Hembla stake was the most significant company event in Q3. Vonovia now has to launch a mandatory public offer for the remaining shares. The price and premium could have been better, but were good enough for us to bid farewell to a position that has served SKAGEN m2 unit holders well. We had long anticipated this transaction given its clear rationale; subsequently Hembla has been the largest position in the fund as well as one of the most successful not only in the quarter but also in the fund's history.

The Japanese office and data centre operator Keihanshin Building Co was the second best performer. The Swedish logistics operator Catena was also a top contributor, despite the drag from the Swedish krone and the fact that one of the largest shareholders sold out of the company. The case for modern logistics is intact and driven by strong structural tailwinds driven mainly by the fast growing e-commerce segment.

The Spanish hotel operator Melia suffered the most this quarter, primarily due to Brexit uncertainty and the collapse of travel operator Thomas Cook, despite their limited exposure to that operator. Hong Kong turmoil continued to be a drag on Shangri-La. We decreased the position substantially.

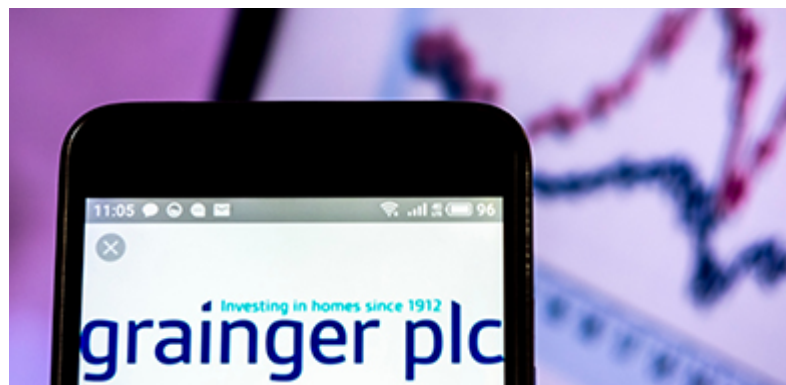


Photo: Bloomberg

Outlook

Powerful structural forces are altering the real estate landscape. The disruptive impact of technology is catalysing change across a host of sectors and real estate is not immune. The sector has become more polarised, in terms of both geography and segments. Alternative assets like logistics and data centres have benefited at the expense of more cyclical office stocks and the structurally declining retail sector. We take a longer-term view on areas of structural growth and focus on sectors with secular tailwinds. The real estate sector has been priced higher since the beginning of 2019 along with the stock market in general, but despite this, there are still many exciting opportunities to be found in the global real estate space. We continue to consider the volatility in the equity markets as an opportunity as much as a frustration. The real estate sector remains attractive due to its stable and rising top-line, low cost financing and solid cash flows. SKAGEN m2 is well positioned thanks to its philosophy and disciplined stock selection.

The fund gives access to a normally inaccessible global real estate market. The fund selects low-priced, high-quality real estate companies from around the world.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

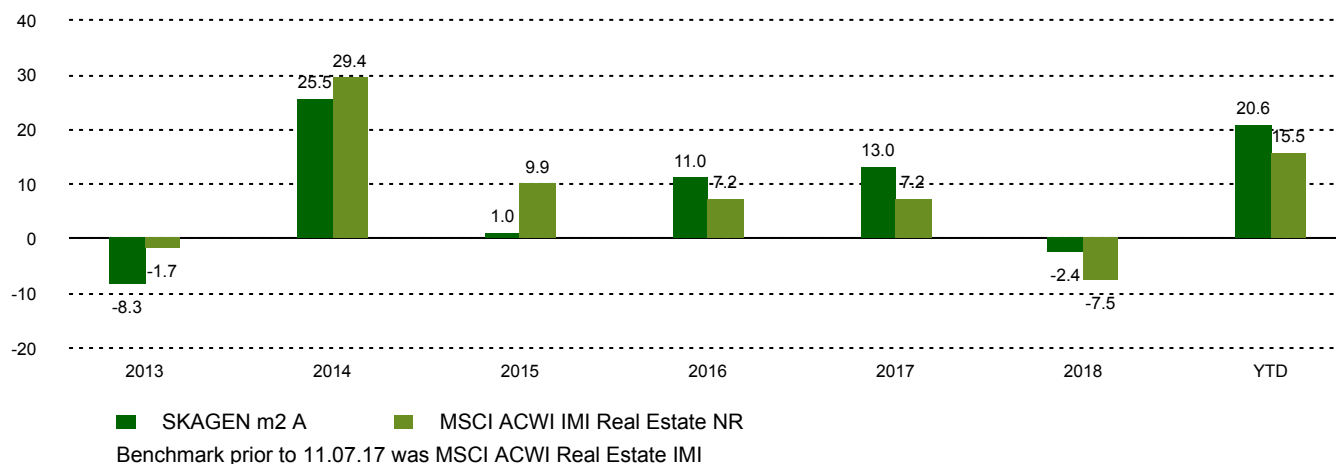
Historical performance (net of fees)

Period	SKAGEN m2 A	Benchmark index
Last month	3.2%	3.0%
Quarter to date	5.9%	2.1%
Year to date	20.6%	15.5%
Last year	14.6%	11.2%
Last 3 years	11.0%	4.8%
Last 5 years	10.0%	8.4%
Since start	8.5%	8.6%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	31.10.2012
Morningstar category	Property - Indirect Global
ISIN	NO0010657356
NAV	23.75 EUR
Fixed management fee	1.50%
Total expense ratio (2018)	2.06%
Benchmark index	MSCI ACWI IMI Real Estate NR
AUM (mill.)	176.98 EUR
Number of holdings	35
Portfolio manager	Michael Gobitschek

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Hembla AB	6.76	1.24
Keihanshin Building Co Ltd	2.95	1.01
Catena AB	5.41	0.78
Kojamo Oyj	3.98	0.63
Sekisui House Ltd	2.26	0.59



Largest detractors

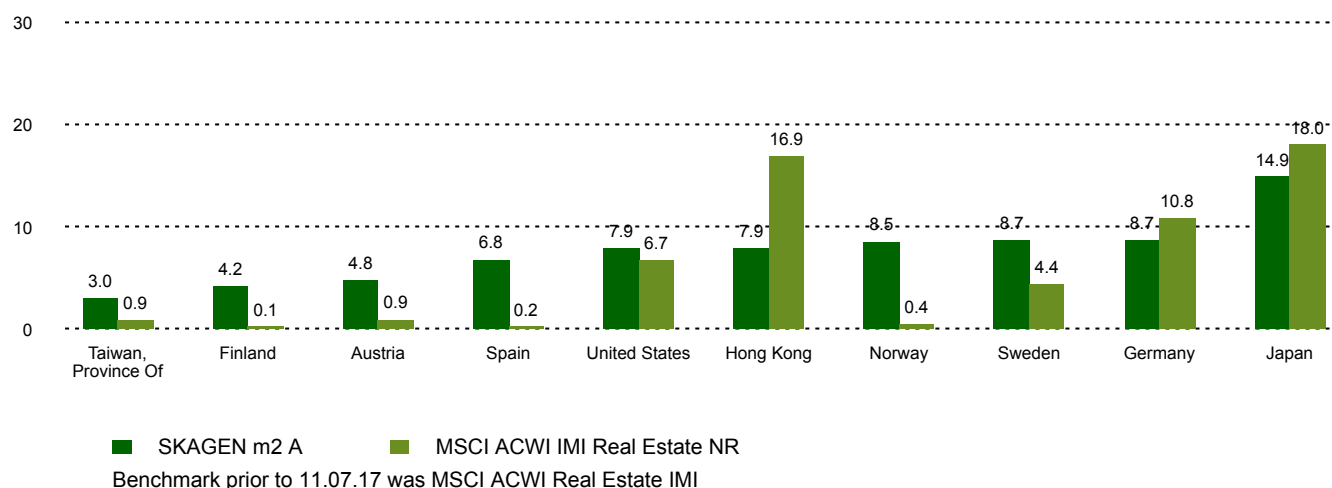
Holding	Weight (%)	Contribution (%)
Melia Hotels International	2.52	-0.32
Shangri-La Asia Ltd	1.85	-0.27
Sun Hung Kai Properties	2.01	-0.23
CK Asset Holdings Ltd	2.99	-0.20
Shurgard Self Storage	3.20	-0.19

Absolute contribution based on NOK returns at fund level

Top ten investments

Holding	Sector	Country	%
CA Immobilien Anlagen AG	Real Estate	Austria	4.8
Catena AB	Real Estate	Sweden	4.8
Deutsche Wohnen SE	Real Estate	Germany	4.4
Aroundtown SA	Real Estate	Germany	4.3
KOJAMO OYJ	Real Estate	Finland	4.2
Mitsui Fudosan Co Ltd	Real Estate	Japan	4.1
Self Storage Group ASA	Industrials	Norway	3.8
Entra ASA	Real Estate	Norway	3.2
Keihanshin Building Co Ltd	Real Estate	Japan	3.2
CK Asset Holdings Ltd	Real Estate	Hong Kong	3.0
Combined weight of top 10 holdings			39.8

Country Exposure (top ten)



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Important information

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